

1 STATE OF WASHINGTON  
2 DEPARTMENT OF FINANCIAL INSTITUTIONS  
3 DIVISION OF CONSUMER SERVICES

4 IN THE MATTER OF DETERMINING  
5 Whether there has been a violation of the  
6 Consumer Loan Act of Washington by:

C-07-307-07-TD01

7 AEGIS WHOLESALE CORPORATION, and  
8 AEGIS FUNDING CORPORATION dba AEGIS  
9 HOME EQUITY,

TEMPORARY ORDER TO CEASE  
AND DESIST AND SUMMARY  
SUSPENSION OF LICENSES

Respondent.

10 THE STATE OF WASHINGTON TO: Aegis Wholesale Corporation  
11 Aegis Funding Corporation, dba Aegis Home Equity

12 COMES NOW the Director of the Washington State Department of Financial Institutions (Director), by  
13 and through his designee Deborah Bortner, Division Director, Division of Consumer Services (designee), and  
14 finding that the public is likely to be substantially injured by delay in issuing a cease and desist order, enters this  
15 temporary order to cease and desist and summary suspension of licenses pursuant to chapter 31.04 RCW, the  
16 Consumer Loan Act (Act), based on the following findings:

17 I. FACTUAL FINDINGS

18 1.1 Respondents:

19 A. Aegis Wholesale Corporation (Aegis Wholesale) is a subsidiary of Aegis Mortgage  
20 Corporation (Aegis Mortgage), and is located at 3250 Briarpark Drive, 4<sup>th</sup> Floor, Houston TX 77042. It is  
21 licensed in Washington as a consumer loan company under license no. 23886 and holds fourteen additional  
22 branch office consumer loan licenses.

23 B. Aegis Funding Corporation, dba Aegis Home Equity (Aegis Funding) is a  
24 subsidiary of Aegis Mortgage, and is located at 3250 Briarpark Drive, 4<sup>th</sup> Floor, Houston TX 77042. It is  
25 licensed in Washington as a consumer loan company under license no. 23882 and holds one additional branch  
office consumer loan license.

1.2 Activity. The following is a summary of recent activity by Respondents.

1           A.     On July 12, 2007, representatives from the Department and representatives of other  
2 State regulators participated in a telephone conference call with Michael Balog, Executive Vice President and  
3 General Counsel of Aegis Mortgage, to discuss the current financial condition of Aegis Mortgage and its  
4 subsidiaries. Mr. Balog stated that Respondent Aegis Funding had ceased operations on June 29, 2007, was  
5 working through its pipeline of existing loan applications, and intended on surrendering its licenses in the next  
6 two months. Mr. Balog stated that Respondent Aegis Wholesale intended to continue operating and had the  
7 financial support of Aegis Mortgage's majority shareholder, Madeleine L.L.C. (Madeleine), an affiliate of  
8 Cerberus Capital Management. Following this conference call, Respondent Aegis Funding provided the  
9 Department with a pipeline report listing twenty-three potential loans, secured by real property located in the  
10 State of Washington and totaling approximately \$1.9 million, in various stages of the lending process. On July  
11 24, 2007, Respondent Aegis Funding provided the Department with a pipeline report listing five potential  
12 loans, secured by property located in the State of Washington and totaling approximately \$400,000, in various  
13 stages of the lending process.

14           B.     Madeleine provided a letter dated July 23, 2007 to Aegis Mortgage, which was  
15 forwarded to the Department, stating Madeleine: received its funds from two affiliated private investment  
16 funds with aggregate net asset value in excess of \$8 billion; had funded Aegis Mortgage with \$170 million in  
17 subordinated debt since January 1, 2006; and intended to continue to support Aegis Mortgage. Madeleine also  
18 noted that the letter was not a commitment or obligation of Madeleine or any of its affiliates to provide any  
19 further funding to Aegis Mortgage.

20           C.     On August 6, 2007, Aegis Mortgage sent an email to its mortgage broker network  
21 informing them that Aegis Mortgage had stopped funding loans and accepting applications as of August 6,  
22 2007, and that any loans submitted to Aegis Mortgage would not be funded and should be moved to another  
23 lender.

24           D.     On August 7, 2007, Aegis Mortgage sent an email to the Department and other State  
25 regulators stating that Aegis Mortgage had stopped accepting loan applications from mortgage brokers and

1 funding loans, in large part due to the illiquidity in the mortgage market. Aegis Mortgage stated they had urged  
2 the mortgage brokers to move any pending loans to other lenders, but could offer no assurances that other  
3 lenders would be willing to make, fund, or purchase these potential loans. Aegis Mortgage estimated that,  
4 nationwide, borrowers had executed loan documents on around 400 loans totaling \$80 million, but these loans  
5 would not be funded. Aegis Mortgage stated they were not holding any borrower funds.

6 E. On August 7, 2007, representatives from the Department and representatives of other  
7 State regulators participated in a telephone conference call with senior executives of Aegis Mortgage to discuss  
8 the current financial condition of Aegis Mortgage and its subsidiaries. Aegis Mortgage reiterated that no  
9 further loans would be funded, further stating they had no access to any warehouse lines of credit, no indication  
10 that any warehouse lines of credit would become available in the foreseeable future, and no indication that any  
11 further funds were forthcoming from Madeleine. Aegis Mortgage estimated there were 9 pending loans  
12 secured by property located in the State of Washington where loan documents had been executed by borrowers.  
13 Aegis Mortgage stated that all pending loans involved Aegis Wholesale and that Aegis Funding had closed  
14 prior to the current activity. Aegis Mortgage stated they did not intend to immediately close or surrender any  
15 licenses held by its subsidiaries.

16 F. On August 7, 2007, after the telephone conference call, Aegis Mortgage provided the  
17 Department with a report for Respondent Aegis Wholesale listing:

- 18 • 9 pending loans secured by property located in the State of Washington, totaling  
19 approximately \$1.9 million, where borrowers had executed loan documents between  
20 July 30, 2007 and August 5, 2007 (366 such loans pending nationwide, totaling  
21 approximately \$77 million); and
- 22 • 13 pending loans secured by property located in the State of Washington, totaling  
23 approximately \$2.9 million, where documents had been sent to closing agents between  
24 July 30, 2007 and August 5, 2005 but borrowers had not executed them (263 such  
25 loans pending nationwide, totaling approximately \$58 million).

1           **G.**     On August 8, 2007, Aegis Mortgage provided the Department with an updated report  
2 for Respondent Aegis Wholesale listing:

- 3           •     3 pending loans secured by property located in the State of Washington, totaling  
4                 approximately \$300,000, where borrowers had executed loan documents between  
5                 August 1, 2007 and August 3, 2007 (333 such loans pending nationwide, totaling  
6                 approximately \$73 million); and
- 7           •     10 pending loans secured by property located in the State of Washington, totaling  
8                 approximately \$2.4 million, where documents had been sent to closing agents between  
9                 July 30, 2007 and August 5, 2005 but borrowers had not executed them (236 such  
10                loans pending nationwide, totaling approximately \$53 million).

11           **H.**     Respondents have not provided the Department with a pipeline report showing all  
12 pending loans at earlier stages in the lending process, such as applications received or commitments issued.

13           **I.**     On August 8, 2007, 3 State regulators took formal action against one or both  
14 Respondents.

- 15           •     The Department of Corporations of the State of California issued a Desist and Refrain  
16                 Order against Respondent Aegis Wholesale and Respondent Aegis Funding, and an  
17                 Order to Discontinue Violations and Unsafe and Injurious Practices to Aegis  
18                 Mortgage, Respondent Aegis Funding, and Aegis Lending Corporation (another  
19                 subsidiary of Aegis Mortgage which has surrendered its Consumer Loan licenses in the  
20                 State of Washington)
- 21           •     The Consumer Credit Division of the Connecticut Department of Banking issued a  
22                 Temporary Order to Cease and Desist, Order of Summary Suspension, Notice of Intent  
23                 to Issue Order to Cease and Desist, Notice of Intent to Revoke First and Secondary  
24

1 Mortgage Lender/Broker Licenses, and Notice of Intent to Impose Civil Penalty to  
2 Respondent Aegis Wholesale.

- 3 • The Commissioner of Banks of the Commonwealth of Massachusetts issued a  
4 Temporary Order to Cease and Desist to Respondent Aegis Wholesale and Respondent  
5 Aegis Funding.

6 **1.3 Substantial Injury to the Public.** Respondents are in such financial condition that they  
7 cannot continue in business in Washington without there being a substantial likelihood that Washington  
8 Consumers will be injured.

## 9 **II. GROUNDS FOR ENTRY OF ORDER**

10 **2.1 Violations of the Act.** Based on the Factual Findings set forth in Section I above,  
11 Respondents are in apparent violation of RCW 31.04.027(1), (2), and (5) for directly or indirectly employing a  
12 scheme, device, or artifice to defraud or mislead borrowers or lenders or any person, directly or indirectly  
13 engaging in an unfair or deceptive practice toward any person, and soliciting, advertising, or entering into  
14 contracts for specific interest rates, points, or other financing terms when such terms were not actually  
15 available at the time of soliciting, advertising, or contracting.

16 **2.2 Violations Affect the Public Interest.** Pursuant to RCW 31.04.208, the legislature found that  
17 any violation of the Act is not reasonable in relation to the development and preservation of business and is an  
18 unfair and deceptive act or practice and unfair method of competition in the conduct of trade or commerce in  
19 violation of RCW 19.86.020 of the Consumer Protection Act.

## 20 **III. AUTHORITY TO ISSUE TEMPORARY ORDER TO CEASE AND DESIST**

### 21 **3.1 Authority to Issue Temporary Order to Cease and Desist.**

22 **A.** Pursuant to RCW 31.04.093(5), the director may issue an order directing the licensee,  
23 its employee or loan originator, or other person subject to the Act to: cease and desist from conducting business  
24 in a manner that is injurious to the public or violates any provision of the Act; and take such affirmative action  
25 as is necessary to comply with the Act.



1           **4.3** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall immediately cease  
2 and desist from advertising its businesses in Washington or to Washington Consumers.

3           **4.4** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall make all  
4 reasonable efforts to obtain funding for, or place with another lender, loans to Washington Consumers that  
5 have closed but not yet been funded.

6           **4.5** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall immediately  
7 notify all Washington mortgage applicants or the mortgage applicant's broker of the status of any applications  
8 or loans with Respondents and the likelihood of funding.

9           **4.6** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall either (a) obtain  
10 funding for and close, or (b) place with other lenders, applications from Washington Consumers to whom loan  
11 commitments have been issued. Respondents shall transfer to any new lender all fees paid by consumers  
12 whose loans will be placed with other lenders.

13           **4.7** For loan applications from Washington Consumers for which no commitment has been issued,  
14 Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall either (a) obtain funding for  
15 the loans, or (b) place the loan applications with other lenders, or (c) deny the loan applications for cause.  
16 Respondents shall return all fees paid by consumers whose loans are denied. Respondents shall transfer to any  
17 new lender all fees paid by consumers whose loans will be placed with other lenders.

18           **4.8** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall seek out other  
19 lenders with whom they can place Washington Consumer loans or applications to the benefit of the  
20 Washington Consumer.

21           **4.9** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall provide to the  
22 Department a daily list of all loans to Washington Consumers that have closed but not funded or loan  
23 applications from Washington Consumers that have not closed. This list shall be updated as stated above until  
24 all Washington Consumers have either had their loans funded or all issues regarding Washington loan  
25 applications have been resolved.

1 a. This list shall include, but is not limited to:

- 2 i. The names of all Washington Consumers that have closed but not funded loans  
3 from Respondents or who have submitted an application to Respondents that has not  
4 yet closed;
- 5 ii. The address and telephone numbers of the consumers listed in (i);
- 6 iii. The loan number;
- 7 iv. The amount of all prepaid loan fees submitted;
- 8 v. The amount of each loan;
- 9 vi. The current application status;
- 10 vii. The rate lock status;
- 11 viii. The actual closing dates;
- 12 ix. Whether the loan was a purchase or refinance;
- 13 x. The identification of the applicable lender with whom each loan will be placed  
14 and contact information for that lender.

15 b. Any changes in the list shall be explained in writing.

16 c. The list shall be sent to James R. Brusselback, Program Manager and Enforcement Chief,  
17 Consumer Services Division, at [jbrusselback@dfi.wa.gov](mailto:jbrusselback@dfi.wa.gov), by 5:00 PM PST on each business day.

18 **4.10** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall provide to the  
19 Department on a weekly basis a liquidity schedule that lists the anticipated Washington loans to be closed and  
20 the anticipated funding available. The schedule shall be sent to James R. Brusselback, Program Manager and  
21 Enforcement Chief, Consumer Services Division, at [jbrusselback@dfi.wa.gov](mailto:jbrusselback@dfi.wa.gov).

22 **4.11** Respondents Aegis Wholesale Corporation and Aegis Funding Corporation shall, as soon as  
23 possible, place any fees previously collected from Washington Consumers relative to any first or secondary  
24 mortgage loan applications in a separate escrow account maintained at a federally insured depository  
25 institution.



1 IN THE U.S. MAIL, POSTAGE PREPAID, TO YOUR LAST KNOWN ADDRESS. BE ADVISED THAT  
2 DEFAULT WILL RESULT IN THIS ORDER TO CEASE AND DESIST BECOMING PERMANENT ON THE  
3 TWENTY-FIRST (21ST) DAY FOLLOWING SERVICE OF THIS ORDER UPON YOU.

4           WITHIN TEN DAYS AFTER YOU HAVE BEEN SERVED WITH THIS TEMPORARY ORDER  
5 TO CEASE AND DESIST, YOU MAY APPLY TO THE SUPERIOR COURT IN THE COUNTY OF  
6 YOUR PRINCIPAL PLACE OF BUSINESS FOR AN INJUNCTION SETTING ASIDE, LIMITING, OR  
7 SUSPENDING THIS ORDER PENDING THE COMPLETION OF THE ADMINISTRATIVE  
8 PROCEEDINGS PURSUANT TO THIS NOTICE.

9           DATED this 15<sup>th</sup> day of August, 2007.



11 

12 DEBORAH BORTNER  
13 Director  
14 Division of Consumer Services  
15 Department of Financial Institutions